SPECIAL MISSOURI HIGHWAYS AND TRANSPORTATION COMMISSION COMMITTEE

Official Minutes

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July 16, 2012

MINUTES OF THE SPECIAL MISSOURI HIGHWAYS AND TRANSPORTATION COMMISSION COMMITTEE MEETING HELD IN JEFFERSON CITY, MISSOURI, MONDAY, JULY 16, 2012

A meeting of the Special Missouri Highways and Transportation Commission Committee on the medical plan was held on Monday, July 16, 2012, at the Missouri Department of Transportation, 105 W. Capitol Avenue, Jefferson City, Missouri. Rudolph E. Farber, Chairman, called the meeting to order at 10:00 a.m. The following Committee members were present: Kevin Keith, Col. Ron Replogle, Brenda Wells, Lt. James Remillard, Jervey Brown, Hugh McKay, Todd Tyler, Sgt. Matthew Broniec. Also present were Lt. Larry Plunkett, Major Sandy Karsten, Roberta Broeker, Jeff Padgett, Jennifer Wilbers, Paula Lambrecht, Pamela J. Harlan, Paul Schultes, and Brad Gravagna. Andy Witte was present via teleconference.

The meeting was called pursuant to Section 226.120 of the 2000 Revised Statues of Missouri, as amended. The Secretary to the Commission verified that notice of the meeting was posted in keeping with Section 610.020 of the 2000 Revised Statutes of Missouri, as amended.

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"Department" or "MoDOT" herein refers to Missouri Department of Transportation.
"Commission" or "MHTC" herein refers to Missouri Highways and Transportation Commission.
"Patrol" or "MSHP" herein refers to Missouri State Highway Patrol
"Committee" herein refers to Special Missouri Highways and Transportation Committee

-- OPEN MEETING --

BASIC PRINCIPLES AND CHRONOLOGY

Chairman Farber shared with the Committee members a chronology of events that led to the creation of the committee. In 2009, recognizing that state revenues were not growing; that the state was facing the road and bridge construction program being cut in half; that operating costs, especially benefit costs were rising rapidly; and that the unfunded liability of the medical plan was very large; the Commission directed staff to develop recommendations to ensure retirement and health care benefits remained sustainable, affordable, and sufficient. MoDOT formed a multi-divisional team to develop recommendations and engaged Girard Miller and Jim Link from Public Financial Management (PFM) to provide a comparison of the Commission's benefits structure to other government entities and private industry. In January 2010, PFM provided the team's recommendations to the Commission. For the medical plan, recommendations included a fixed dollar employer contribution for future retirees as well as tying the retiree health care benefit to years of service. The Commission took these recommendations under consideration, but no action was taken.

In June 2010, MoDOT and the Patrol conducted a survey and focus groups to gauge employee preferences regarding healthcare and retirement plans. In July 2010, the Commission previewed the MoDOT/MSHP Medical Plan Board recommendations, and requested staff develop recommendations regarding health care benefits and possible changes to ensure a sustainable, affordable, sufficient benefit package. MoDOT reconvened the multi-divisional team and engaged PFM again to develop recommendations regarding health care benefits.

In March 2011, the Commission held a workshop regarding benefits. The multi-divisional team and PFM made a presentation recommending the following changes to benefits:

- Setting the employer/employee shares of health care premiums for active employees at 80/20.
- Setting the employer/retiree shares of health care premiums for current retirees at 40/60.
- Creating a new structure for future retirees with a specific employer contribution amount per years of service, with the amount of the premium increase capped at the increase in the Consumer Price Index (**CPI**).
- Increase the rates for pre-65 retirees so rate category becomes self-sustaining.
- Establish an Other Post-Employment Benefits (**OPEB**) trust fund, similar to a pension trust fund, to begin to accumulate funds to pay for retiree health care benefits.

In June 2011, the Commission approved the implementation of the Bolder Five-Year Direction, reducing employees by 1,200, facilities by 131, and equipment by about 740 pieces, to save $512 million in five years and redirect those funds to the road and bridge system in an effort to provide the best level of service possible to the taxpayers, despite stagnant revenues and rising costs.

In July and August 2011, two more benefits workshops were held to discuss recommended changes to health care benefits. In September 2011, the Commission approved the medical plan premiums and benefits for 2012; this action adopted the strategy of gradually implementing the 80/20 employer/employee premium share and the 40/60 employer/retiree premium share. The Commission also approved conceptual changes to the employer contribution strategy for new retirees beginning in 2014, basing the employer contribution on years of service rather than a uniform percentage regardless of years of service with a cap of 35 years, providing the retiree the choice of an employer contribution of $12 per year of service per month with no survivor contribution or $10 per year of service per month with a survivor contribution, and providing for an annual review of the contribution amounts with increases in the employer share capped at the increase in the CPI. Staff recommended the implementation date for this strategy begin in 2014 rather than 2013 based upon Colonel Ron Replogle's request to delay the implementation of the contribution strategy for new retirees due to his concern about the impact this change will have on the Patrol's ability to attract and retain employees.

From December 2011 through March 2012, the department and the Commission received concerns regarding the changes to health care benefits. On April 3, 2012, the Missouri State Troopers' Association formally presented their concerns to the Commission. In light of the concerns that had been raised, the Commission decided to study health care benefits changes further and adopted a resolution on May 2, 2012 to maintain employer/employee contribution shares at the 2012 levels, and rescinded their September 2011 action to change the new retiree contribution strategy. The resolution also created the Special MHTC Committee to review the medical plan's sustainability, affordability, and sufficiency, and ensured the membership of the Committee included the Commission, MoDOT, and MSHP representatives.

Chairman Farber requested Kevin Keith describe the financial realities facing the Commission, employees of MoDOT and the Patrol, and the taxpayers of Missouri. Mr. Keith described how revenues for transportation are declining at both the state and federal levels and the problem continues with no long term funding solution in the future. This problem requires the Commission to change how it is doing business in order to be able to continue to provide the transportation services the citizens of Missouri expect with the resources it has available.

Chairman Farber then introduced two basic principles:

- Rate categories (active, pre-Medicare retirees, Medicare retirees) should be self-sustaining. One group of plan participants should not subsidize the premiums of another group.
- The longer you work, the greater your state contribution should be when you retire. Currently, the state share is the same regardless of years of service.

Following discussion and inquiries, the committee reached consensus on these principles.

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MEDICAL PLAN CONTRIBUTIONS HISTORY

The MoDOT/MSHP Medical Plan Board recommended the contribution increases necessary to adequately fund the plan from 2000 through 2007. The Commission decided to cover all premium increases during this time period due to the prolonged period of no or small pay raises. The Commission believed if contribution increases were shared with employees, much of the raise would be lost to health care premiums. This decision prevented adjustments to the various rate categories for actual cost of care, and led to the situation of some rate categories subsidizing the costs of others.

Getting the rate categories to be self-sustaining has been a priority of the MoDOT/MSHP Medical Plan Board for a number of years. Starting in 2008, the subscribers began to share in the recommended contribution increases necessary to adequately fund the plan. In 2008, the 10 percent increase in contribution to the plan was equally shared between the Commission and subscribers, the Commission paid 5 percent of the increase, the subscribers paid 5 percent of the increase. In 2009, the 4 percent increase in contribution to the plan was equally shared between the Commission and subscribers, the Commission paid 2 percent of the increase and the subscribers paid 2 percent of the increase. In 2010, the 4 percent increase in contribution to the plan was equally shared between the Commission and subscribers, the Commission paid 2 percent of the increase and the subscribers paid 2 percent of the increase. In 2011, the increase in the contribution to the plan was covered by the plan's reserves; however, the share of the premium for pre-Medicare retirees was increased by three percent. This adjustment was made to move the pre-Medicare retiree categories to become self-sustaining. Additionally, adjustments were made in the cost sharing to move closer to the 80/20 employer/employee and 40/60 employer/retiree share of premiums.

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OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Representatives of Aon Hewitt, the actuarial firm engaged by MoDOT/MSHP Medical Plan Board, explained government accounting standards were revised and require reporting of retiree medical obligations. This retiree medical obligation is referred to as Other Post-Employment Benefits (OPEB), and is the estimated cost to provide health care to retirees. Aon/Hewitt Consulting estimated the Commission's OPEB unfunded liability to be $1.6 billion based on existing plan provisions. The future unfunded cost of the retiree medical benefit is not sustainable under the MoDOT/MSHP Medical Plan Board's current strategy. Changes in the medical plan retiree contribution strategy are necessary in order to reduce this unfunded liability. One method to reduce this liability is for the Commission to contribute an additional $110 million annually. Another method to reduce the liability is to change the contribution strategy for new retirees.

Aon Hewitt shared the following four possible scenarios that would base contributions on years of service and how those changes in strategy would reduce the OPEB unfunded liability.

- $12 or $10 per year of service with a 35 year cap to a maximum of 40% employer contribution reduces the liability to $824.6 million.
- 2 percent per year of service with a 20 year cap to a maximum of 40% employer contribution reduces the liability to $1.18 billion.
- 2 percent per year of service with a 25 year cap to a maximum of 50% employer contribution reduces the liability to $1.3 billion.
- 2 percent per year of service with a 30 year cap to a maximum of 60% employer contribution reduces the liability to $1.5 billion.

A discussion comparing the use of a percentage compared to a fixed dollar amount per year of service took place, along with the need to adjust the contribution for inflation.

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MODOT/MSHP MEDICAL PLAN BOARD RECOMMENDATIONS FOR 2013 AND ACTUARIAL RESULTS FOR 2012

Jeff Padgett, MoDOT Risk and Benefits Management Director, and MoDOT/MSHP Medical Plan Board Chairman (Board), previewed with the Committee the Board's proposed recommendations that will be presented to the Commission in 2013 along with the actuarial results for 2012.

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MISSOURI CONSOLIDATED HEALTH CARE CONTRIBUTION PROCESS COMPARED TO MODOT/MSHP MEDICAL PLAN

Jennifer Wilbers, MoDOT Employee Benefits Manager, presented to the Committee for their review a comparison of Missouri Consolidated Health Care Plan (MCHCP) contributions compared to the MoDOT/MSHP Medical Plan. Although MCHCP calculates their contributions differently, an estimate was prepared for the Committee's review and consideration. Jeff Padgett, MoDOT Risk and Benefits Management Director, reported the MCHCP has offered to participate in an actuarial study with the MoDOT/MSHP Medical Plan to determine a true comparison of the contributions and rates of the plans and what the risk would be if the MoDOT/MSHP Medical Plan were to join the MCHCP.

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MODOT/MSHP MEDICAL PLAN BOARD OF TRUSTEES STRUCTURE AND RESPONSIBILITIES

Jeff Padgett, MoDOT Risk and Benefits Management Director, reviewed with the Committee the structure of the MoDOT/MSHP Medical Plan Board of Trustees (Board) along with their duties and responsibilities. The Commission established the Board in 1977, and the medical plan became effective in 1978 with an initial employer contribution of $12 per employee per month. The Board Chairman is appointed by the Commission; the Vice-Chair and Secretary are elected by Board members annually. The Commission provides general direction for the Board in administering the plan. The Board is responsible for the general management of the insurance plan, and there is a list of fourteen responsibilities outlined by Commission policy. The Board meets monthly in order to fulfill its duties.

The Board currently has four active MoDOT employees, two active MSHP employees, one MoDOT retiree, and one MSHP retiree. The board member representation equates to 63 percent MoDOT, and 37 percent MSHP. This is slightly more representation for MSHP employees compared to current participation levels in the medical plan which is approximately 73 percent MoDOT subscribers, and 27 percent MSHP subscribers.

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SPECIAL COMMITTEE NEXT STEPS

Chairman Farber proposed for consideration by the Committee the following changes in medical plan benefits.

1. Each medical rate group should pay their portion of premiums and not be subsidized by the other medical plan rate groups. This will result in an increase in the total premiums for some rate groups.
2. To ensure the sustainability, affordability and sufficiency of medical benefits for employees and retirees, the proposed strategy of modifying the medical plan's employee rate categories as follows:
    - Active employees - 80 percent employer share and 20 percent employee share of the premium
    - Current Non-Medicare retirees – 45 percent employer share and 55 percent retiree share of the premium
    - Current Medicare retirees – 45 percent employer share and 55 percent retiree share of the premium

A phased in strategy for rate changes is being considered. For example, if a retiree rate category was currently shared at 57 percent employer and 43 percent retiree, then it would need to change to 45 percent employer share and 55 percent retiree share. That change results in a 12 percent increase for the retiree share. Rather than increase the rate the full 12 percent in one year, a phased in strategy would distribute the rate increase over a period of time. For example, it may only increase by 3 percent a year until it reached the 55 percent retiree share. On average, the retiree categories are at the 45 percent employer share and 55 percent retiree share of the premium.

3. Benefits for future retirees should be based upon years of service.

    a. It was proposed for current employees who retire in the future; their medical plan benefit would be based on years of service. The retiree would earn 2 percent per year of service with a cap of 45 percent for the employer share of the premium; the retiree would pay the remainder of the premium. No effective date was established for this proposed change in medical plan benefits for current employees who will retire in the future.

    b. It was proposed for new hires, their medical plan benefit upon retirement would also be based on years of service but with a different share in the premium costs. The retiree would earn 2 percent per year of service with a cap of 40 percent for the employer share of the premium; the retiree would pay the remainder of the premium. No effective date was established for this change in medical plan benefits upon retirement for future employees.

4. It was proposed the MoDOT/MSHP Medical and Life Insurance Plan establish an OPEB trust to address the unfunded liability of future medical plan costs.

Chairman Farber requested the Committee members share this proposal with their constituencies to gather feedback and suggestions if the constituency disagrees with the proposal. Chairman Farber explained this proposal has not been shared with the Commission, and that ultimately any recommendation from the Committee will go to the Commission for approval.

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By unanimous consensus of all Committee members present, the meeting was adjourned.

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